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JAPAN AND ASEAN: POLITICAL AND ECONOMIC RELATIONS

Summary

As Japan's global power has expanded, its importance to the economies of the six ASEAN countries has also increased. In trade, investment and aid flows, Japan has become the primary foreign economic presence in most of these nations. Although it has maintained a low profile in political issues, Tokyo has begun during the last decade to offer the region a measure of political cooperation. While its economic and political support are welcome, inherent tensions have caused dissension in both areas. This report will examine the major issues facing the region as well as the reasons behind Japan-ASEAN disputes.

Introduction

Japan has long placed the maintenance of close relations with Southeast Asian countries on its priority list. After World War II Tokyo chose to pursue this goal primarily through economic means, while keeping a low political profile. This strategy has, for the most part, been enormously successful. Japan was able to break through the Western colonial influence in these countries and establish itself as the number-one foreign economic presence. Southeast Asian nations, in turn, began to look to Japan for the growth that economic assistance and investment can bring.

In 1967 five countries -- Thailand, Singapore, Malaysia, the Philippines and Indonesia -- formed the Association of Southeast Asian Nations. Brunei joined the organization in 1984. Because these nations have similar economies

(with the exception of Singapore), political views and development goals, the association serves as a forum to develop complementary policies. Moreover, the organizational structure that combines the voices of the six members often carries more weight with developed countries than the views of individual countries.

Still, ASEAN remains far from unified -- and is nowhere near achieving the cohesion that the European Community enjoys. National interests continue to outweigh the members' commitment to regional interests. In fact, regional policies normally develop only from those issues that coincide with or advance national goals. Coordination of economic policies is made more difficult by the fact that these nations produce similar goods (including a rich supply of primary products) and most have adopted import-substitution development policies. As an ASEAN task force report noted, this makes their economies more complementary with the developed nations rather than with fellow ASEAN members.

As the most developed nation in the region -- and with the advantages of geographical proximity and a degree of cultural similarity -- Japan became a major player in the economies of Southeast Asia during the 1960s. Japan relied on the region for raw materials, including petroleum (Indonesia), tin (Indonesia, Malaysia and Thailand), copper (the Philippines), nickel and bauxite (Indonesia). At the same time, it increased investments in and exports of manufactured goods to the region. As its influence grew, the Southeast Asian countries began to complain of Japanese economic domination. Tensions multiplied, culminating in anti-Japanese riots and demonstrations in Bangkok and Djakarta during Prime Minister Kakuei Tanaka's 1974 tour of the region.

Confronting these disheartening signals during the 1973-74 oil crisis, Tokyo reconsidered its ASEAN policy. Then-Prime Minister Takeo Fukuda unveiled a new plan during his 1977 visit -- the "Fukuda Doctrine." To encourage the development of "heart-to-heart relations," he promised to increase Japanese economic assistance and participation in joint ventures, promote cultural understanding and increase Japan's imports from the region. In launching the doctrine, he pledged $1 billion to finance large industrial projects jointly owned by the ASEAN members.

ASEAN countries, apprehensive about the recent military withdrawal of the United States from the region and anxious for assistance in their development plans, welcomed the change, which has for the most part remained in effect since then. During Prime Minister Zenko Suzuki's 1981 tour of the region, he introduced a slight rhetorical modification, calling for the "politics of harmony" between Japan and ASEAN. Last year Foreign Minister Shintaro Abe reiterated Tokyo's position when he presented the "Abe Doctrine" -- a renewal of earlier promises as well as support for "heart-to-heart relations" and a "creative partnership."

Significant problems remain, however. Although there is a strong ASEAN lobby in Tokyo today, specific goals can be hard to develop. Japan's desire to support the organization is hindered by the fact that the ASEAN position is often unclear. Since the members themselves are often ambivalent, Tokyo has to deal with indecision and slow policy development. Nonetheless, definite areas

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of agreement and disagreement can be found. Not surprisingly, there is general (but not complete) accord on political matters, particularly given Tokyo's hands-off policy in that area. It is in the economic realm that disputes are more evident.

Trade Relations

Despite the criticism leveled at Tokyo on trade issues, ASEAN has consistently run a trade surplus with Japan -- approximately $4 billion in 1986 using Japanese data (see Table 1). Bilaterally, Japan's trade is in the red with all the members except Singapore and Thailand. ASEAN takes little satisfaction in these figures, however, since the bulk of its exports to Japan consists of primary products.

Table 1: Japan's Trade with ASEAN, 1982-86

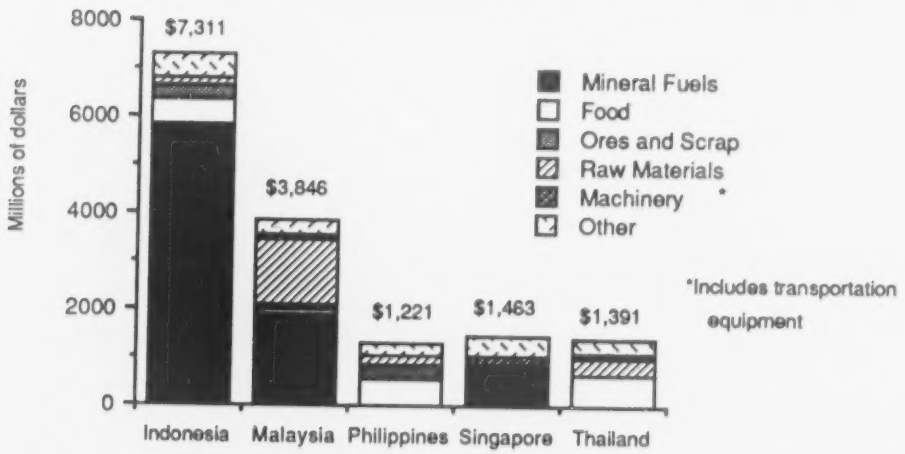
(in millions of dollars; exports f.o.b., imports c.i.f.)

	1982	1983	1984	1985	1986
Brunei					
Exports	$ 145	$ 86	$ 72	$ 90	$ 58
Imports	2,636	2,637	2,202	1,892	1,285
Trade Balance	-2,491	-2,281	-2,131	-1,802	-1,227
Indonesia					
Exports	4,261	3,552	3,073	2,172	2,662
Imports	12,005	10,432	11,175	10,119	7,311
Trade Balance	-7,744	-6,880	-8,102	-7,947	-4,649
Malaysia					
Exports	2,502	2,771	2,875	2,168	1,708
Imports	3,010	3,131	4,412	4,330	3,846
Trade Balance	-508	-360	-1,537	-2,162	-2,138
Philippines					
Exports	1,802	1,744	1,080	937	1,088
Imports	1,576	1,306	1,419	1,243	1,221
Trade Balance	227	437	-338	-306	-133
Singapore					
Exports	4,373	4,448	4,610	3,860	4,577
Imports	1,826	1,468	1,775	1,594	1,463
Trade Balance	2,547	2,981	2,835	2,266	3,114
Thailand					
Exports	1,907	2,506	2,425	2,030	2,030
Imports	1,041	1,019	1,040	1,027	1,391
Trade Balance	966	1,487	1,385	1,003	639
Total ASEAN					
Exports	14,990	15,107	14,134	11,257	12,123
Imports	22,094	19,722	22,024	20,205	16,517
Trade Balance	-7,103	-4,615	-7,887	-8,948	-4,394

Source: Japan Tariff Association, The Summary Report: Trade of Japan

No less than 87 percent of Japan's imports in 1986 consisted of food, mineral fuels (including petroleum products), metal ores and scrap, and other raw materials (see Figure 1). Of course, some countries are more dependent on primary exports than others. Virtually all of Brunei's 1986 exports to Japan fell into this category, as did 93 percent of Indonesia's, 90 percent of Malaysia's, 80 percent of the Philippines' and 74 percent of Thailand's. Even in the case of Singapore, the most developed of the ASEAN members, agricultural and industrial raw materials made up 59 percent of all shipments to Japan.

Figure 1
Japan's Imports from ASEAN Countries, 1986



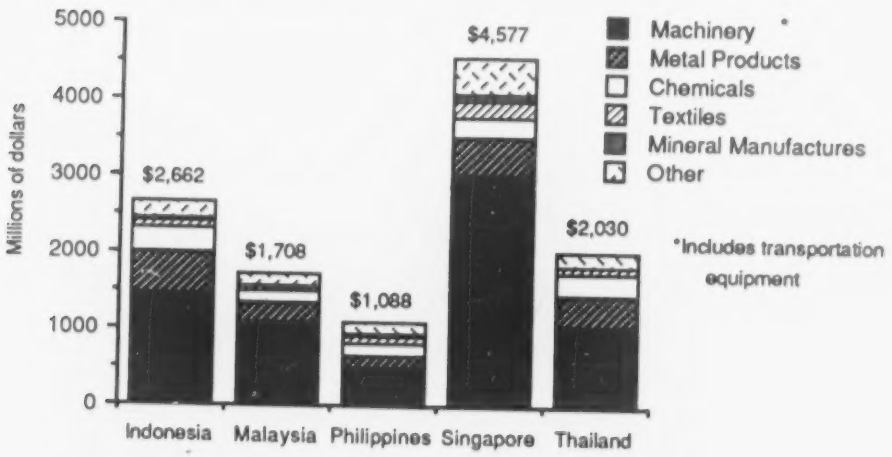
ASEAN complains that, despite Tokyo's pronouncements on "heart-to-heart" relations, it neglects the region in its attempts to assuage American and European trade complaints. For example, members point out that Japanese duties on some developed countries' primary exports are actually lower than those on similar ASEAN products. In response to these charges, Tokyo lowered tariffs in 1985 on boneless chicken (a Thai export), bananas (Philippines) and palm oil (Malaysia). While pleased by the reductions, ASEAN insisted that Tokyo's actions did not go far enough.

Their reliance on raw materials leaves the ASEAN countries in a classic predicament for developing countries: excessive vulnerability to swings in commodity prices. Given present depressed oil prices, this is an especially difficult problem for Indonesia. Moreover, sales of primary products do little to enhance economic development. As mentioned previously, countries in the region are pushing import-substitution policies that expand their manufacturing capacities.

Members would like more help from Tokyo in this respect: specifically, by increaing its imports of manufactured goods. In 1986 every ASEAN country ran a substantial trade deficit with Japan in manufactures. The total deficit (excluding Brunei) was $9.8 billion, with Singapore's $3.9 billion imbalance topping the list. The Philippines had the lowest deficit at $827 million. Some 98 percent of all Japan's exports to ASEAN countries are manufactured

goods (see Figure 2). By contrast, only 13 percent of ASEAN's sales fit that category. In response to complaints in this regard, Tokyo announced in August 1986 that it would assist ASEAN in the development of export-oriented industries (see next section).

Figure 2
Japan's Exports to ASEAN Countries, 1986



To work out these and other areas of disagreement, the Japan-ASEAN Forum was launched in 1977 to provide a framework for discussions of trade and development. This institutional arrangement allows the ASEAN countries to negotiate with Japan on a multilateral basis. This benefits ASEAN more than Japan since Tokyo has been more comfortable -- and more effective -- in bilateral negotiations.

A major trade concern continues to be the volatility of ASEAN's export earnings due to the sensitivity of commodities to price fluctuations. ASEAN has proposed the estalishment of STABEX -- a system to insure the stabilization of the members' export earnings. Although the issue has been discussed periodically since 1977, nothing concrete has resulted.

Japan backs the establishment of a Pacific economic community. Although the intention would be to promote economic growth, several of the ASEAN countries are fearful that such an organization would give developed nations a stronger voice than ASEAN members. Thus, they worry that ASEAN interests will be overshadowed by those of the economically advanced nations.

Still, some have found the idea appealing and have participated in annual tripartite discussions among academics, business and government officials on the subject. As of mid-1986, national committees for these Pacific Economic Cooperation Conferences had already been set up in Japan, Thailand, Indonesia, the United States, Canada, South Korea, Taiwan, Australia and New Zealand, while other ASEAN countries were preparing to join the process.[1]

[1]"Japan, '86," Far Eastern Economic Review, June 12, 1986.

Japan's Investment in ASEAN

In addition to the trade relationship, Japan has established a strong investment presence in the ASEAN countries (see Table 2). While the member countries have largely welcomed Japan's economic presence, they complain about its form. Given Japan's need for raw material inputs, investors have tended to concentrate on natural resource development -- especially in resource-rich Indonesia. ASEAN countries see little value in this type of venture for their development goals; they continue to urge Japan to invest in the manufacturing sector. Even so, they point out, when Japanese firms do set up manufacturing bases in their countries, it is often for offshore assembly rather than integrated production for the local market.

Table 2: Japan's Foreign Direct Investment in ASEAN, FY 1981-85

(in millions of dollars)

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	Total March 31, 1986
Brunei	$ 5	$ --	$ 2	$ 5	$ 1	$ 107
Indonesia	2,434	440	374	374	408	8,423
Malaysia	31	83	140	142	134	1,683
Philippines	72	34	65	46	61	892
Singapore	266	180	322	225	339	2,269
Thailand	31	94	72	119	114	761
Total ASEAN	2,839	831	975	911	1,057	14,135

Source: Ministry of Finance

An equally worrisome problem is the fact that the industrialized countries are becoming more attractive to Japanese investors (see Figures 3 and 4). While Japan has been steadily increasing its investments in the United States and Western Europe, there has been no substantial increase in funds to Southeast Asia in several years -- a sign, ASEAN officials say, that Japan is "separating from Asia."[2] Consequently, several ASEAN leaders have appealed directly to Tokyo to put more emphasis on investments in ASEAN, especially in export-oriented industries.

Japan's response to the latest set of requests, made at the July 1986 Japan-ASEAN Forum, came in the form of the "New Asian Industries Plan." The plan has four goals: (1) to build up the region's export industries; (2) to decrease yen credit interest rates; (3) to promote technology transfers; and (4) to expand the Generalized System of Preferences on individual imports.[3] Tokyo has said that it plans to encourage the formation of joint ventures, emphasize infrastructure linkages, train more ASEAN engineers, and extend low-interest loans both to the ASEAN countries and Japanese firms that participate in the effort.

[2]Asahi Shimbun, October 3, 1986.
[3]Far Eastern Economic Review, January 24, 1987.

Figure 3
Japan's Foreign Direct Investment, FY 1980

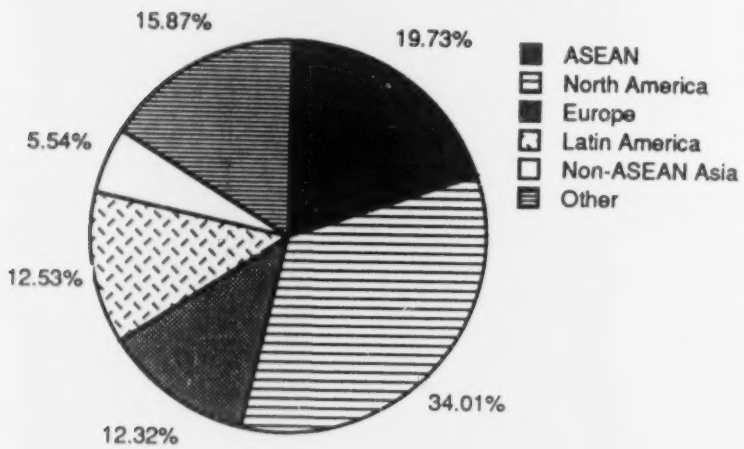
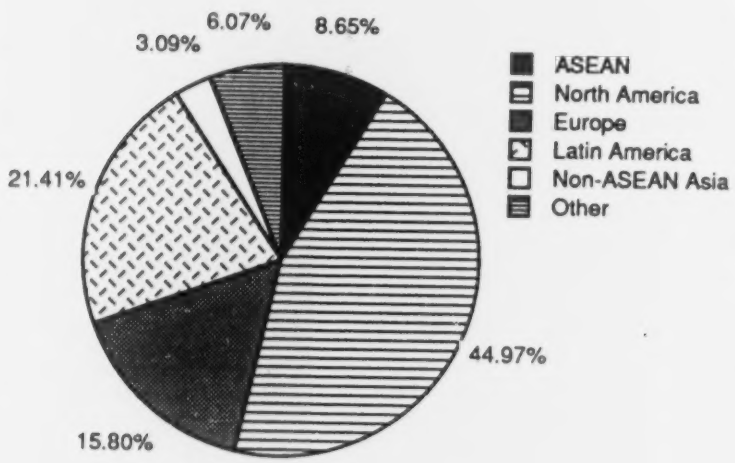


Figure 4
Japan's Foreign Direct Investment, FY 1985



In return for this initiative, Tokyo hopes to see the elimination of some investment deterrents in ASEAN countries. For example, Japanese officials want to see tax structures, domestic equity and content regulations, and other government restrictions liberalized to be more conducive to foreign investment. While there has been some positive feedback from Thailand so far, it is still unclear how quickly the other countries in the region will respond.

The Yen's Appreciation: A Mixed Blessing?

ASEAN's concern about Japan's role as a developed country has already been mentioned in the context of the Pacific Community issue. However, these concerns also extend to Japan's macroeconomic policies and other bilateral relations. Tokyo's efforts to maintain harmonious relations with the United States and Western Europe provoke some consternation since many of those efforts are seen as coming at the expense of ASEAN's regional interests. The most important change, of course, has been the appreciation of the yen against the dollar from its February 1985 low of Y263 to its current level of Y150 or so.

Since many of the ASEAN currencies are linked -- officially or unofficially -- to the dollar, the yen has appreciated substantially against them as well. For example, the yen rose almost 162 percent against the Indonesian rupiah in nominal terms between February 1985 and March 1987, 70 percent against the Malaysian ringgit, 65 percent against the Singapore dollar and 60 percent against the Thai baht (see JEI Report No. 13B, April 3, 1987).

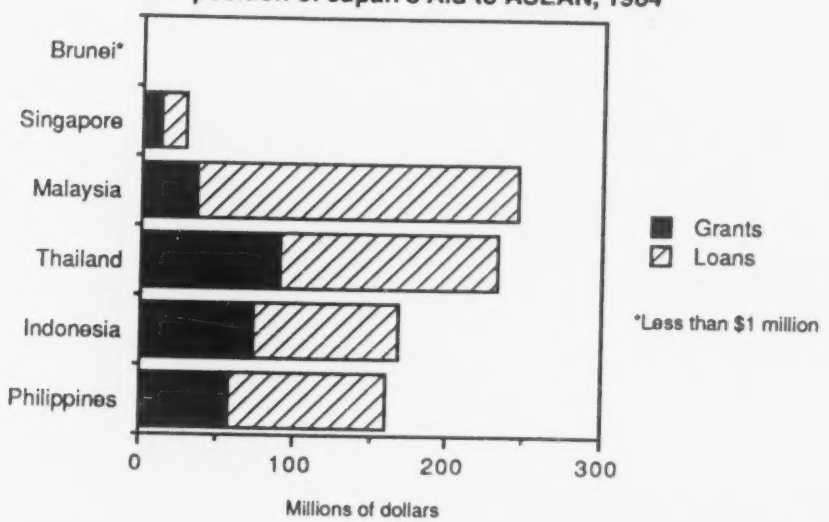
This realignment has been a mixed bag for most of these countries. The best news has been in the area of investment, which has become more attractive to Japanese investors since the yen's rise. According to a November 1986 survey of Japanese firms with overseas operations by ASEAN's Center on Trade, Investment and Tourism, nearly 30 percent of the respondents chose the region as their first investment choice. Moreover, 30 percent of the companies already operating there are considering expanding, 55 percent intend to maintain their present activities and only 10 percent are thinking of scaling down or withdrawing (see JEI Report No. 42B, November 14, 1986). Similarly, the yen's appreciation may bode well for ASEAN's trade balance with Japan. Since the adjusted exchange rates favor ASEAN exports, these countries could see an improvement in their manufactured goods sales to Japan.

On the other hand, exchange rate changes have seriously damaged those countries with large yen-denominated debts -- mainly, Indonesia and Malaysia (see Figure 5). For both these countries, which are already suffering from low petroleum prices, it is now more costly to pay the interest on their yen loans.

Malaysian Prime Minister Datuk Seri Mahathir bin Mohamad has been the most vocal about the need for a Japanese response to this problem. In late 1986 he asked Japanese officials to lower the interest rates on new loans to his country and approve other debt-alleviation measures. Tokyo has been reluctant to reduce interest rates for fear of establishing a global precedent. However, it has recently taken steps to enact an across-the-board reduction in rates (based on income) for new loans. Still, officials argue that although debtors benefited in recent years from a low yen, there was no discussion of interest rate hikes.

Figure 5

Composition of Japan's Aid to ASEAN, 1984



In addition to macroeconomic questions, ASEAN officials are watching the trade policy disputes between the United States and Japan with concern. The emphasis in Washington on the need for trade legislation, which has been directed primarily at Tokyo, has an adverse effect on ASEAN's economies as well. Congressional complaints about Japan's trade practices have been expanded to include other countries. There is a growing feeling that Japan is the model from which other countries learn "mercantilist" trade patterns. While the newly industrialized countries have borne the lion's share of this spinoff effect, the ASEAN nations are aware of the negative impact it could have on their trade relations with the United States.

Political Relations

To say that Japan has steered clear of regional political issues does not mean that it is uninterested. The security of Southeast Asia is critical to Japan. The ASEAN region is the geographical bridge from Tokyo to Southwest Asia, the Middle East, Africa and Europe. Moreover, nearly all of Japan's petroleum is shipped through the Strait of Malacca. Recently it has become evident that as Japan's economic power continues to grow, the absence of a political policy has implications in and of itself. This realization, coupled with calls from the United States for a greater international role for Tokyo, has led to some tentative steps toward formulating a political strategy for Southeast Asia.

The first indication of this came during Prime Minister Suzuki's January 1981 tour through the region when he said that Japan should "play a political role to help maintain world peace . . . a role commensurate with Japan's status in the community of nations."[4] Just what Tokyo's role should be remained

[4]Eiichi Imagawa, "Development of Japan's Political Roles in Southeast Asia -- Japanese Policy Toward Southeast Asia," in Gaston Sigur and Young C. Kim (eds.), Japanese and U.S. Policy in Asia (New York: Praeger Publishers, 1982), p. 134.

unclear -- as it largely does today. On certain issues, such as the Cambodian problem, Japan's political cooperation with ASEAN has been quite forthcoming. If there is one tie that binds the six member nations, it is their opposition to Vietnam's presence in Cambodia. Tokyo has been a strong supporter of ASEAN's concerns in this area, not only verbally but also by suspending aid to Vietnam after the 1979 invasion of Cambodia.

Moreover, the extent of Japan's official development assistance to Thailand not only reflects the country's economic needs, but Japan's support of ASEAN's position on the Cambodian issue. In 1980 Tokyo adopted "comprehensive national security" -- that is, the consideration of military and non-military factors in security issues -- as national policy. Under this policy Prime Minister Masayoshi Ohira decided that Thailand was one of three countries to fit the category "countries bordering conflict areas." Consequently, aid was increased in recognition of its "front line" status in the conflict with Vietnam.

If Tokyo's cooperation on this issue is welcomed, its increasing military presence in the area meets with much more hesitation. Thus, ASEAN countries greeted Tokyo's December 1986 decision to abandon the 1 percent of GNP defense spending cap with deep suspicion. Many analysts explain this reaction by pointing to ASEAN's bitter memories of Japan's wartime campaign to establish a "Greater East Asia Co-Prosperity Sphere." Still, this is probably only part of the story. ASEAN's concerns are probably also an outgrowth of Japan's expanding economic presence. Members fear that allowing Japan to acquire political and military influence as well as economic power would pose a risk to their national identities.

Moreover, the fear of Japan's rearmament almost certainly reflects more than an aversion to Japanese domination. A greater Japanese military presence could encourage the United States to withdraw from the region, leaving its defense to Tokyo. This is, of course, less than optimal for the ASEAN members, which have made no secret of their desire to see the United States maintain its military position in the region.

Another political sticking point is China. Since reestablishing diplomatic ties with Beijing in 1978, Tokyo has had to perform a regional balancing act. Not only do some ASEAN countries -- especially Indonesia -- consider China a security threat, on its own and through its support of communist insurgency movements, but all believe that Japan's relationship with China could threaten their economic interests. In recent years they have witnessed a substantial increase in the volume of aid and investments flowing to China as well as a hike in Japan's imports from that country.

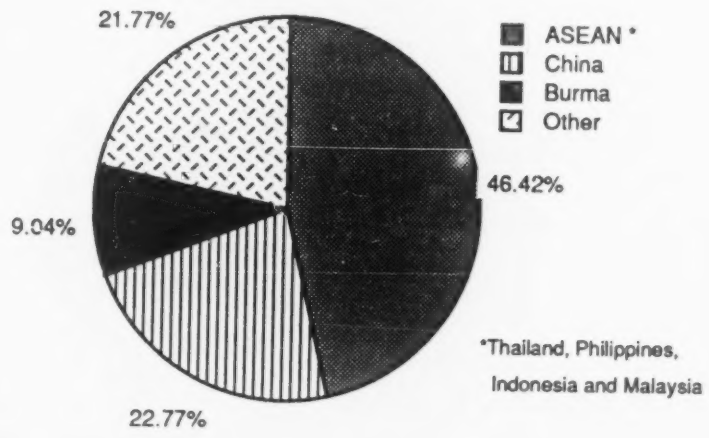
Tokyo has emphasized that there is no cause for worry. With regard to aid flows, officials state unequivocally: "Economic cooperation with China will not be given to the detriment of its cooperative relations with other developing countries, in particular the ASEAN countries."[5] Despite these assurances, China has been the number-one recipient of Japan's assistance since 1981 -- a position previously held by ASEAN members.

[5]Ministry of Foreign Affairs, Japan's ODA 1985, p. 14.

Japan's Aid to ASEAN

Doubts about China notwithstanding, economic assistance is probably the area that has provoked the least dissension. Not surprisingly, then, it is the subject with which Tokyo is most confident. Japan's entire development assistance program emphasizes Asia -- specifically the ASEAN countries, China and Burma (see Figure 6). Since the late 1970s, a 7-1-1-1 formula has been in effect: roughly 70 percent of development aid is slated for Asia, while Latin America, Africa and the Middle East receive approximately 10 percent each. Although this formula has been slightly relaxed in recent years -- roughly two-thirds of Japan's official development assistance reaches Asia -- Japan continues to emphasize the regional element of its aid program.

Figure 6: ASEAN's Share of Japan's ODA To Top Ten Aid Recipients, 1985



Of course, ODA figures do not include Japan's multilateral aid nor the activities of private organizations. Japan is the largest contributor to the Asian Development Bank, as well as a major donor to the Asian Productivity Organization and the Southeast Asia Fisheries Development Center. Further, over 200 non-governmental aid organizations exist in Japan. One of the best known, the Japan International Volunteer Center, sends more than 1,000 volunteers abroad, especially to Southeast Asia. Another is the Asian Community Trust, which offers financial assistance for development projects.

The United States has endorsed Tokyo's aid efforts in Asia and has asked Japan to expand its assistance to the region. A recent Japanese news article likened the idea to the Marshall Plan, noting that the goal of the proposal is to enhance political and economic stability in the region.[6]

[6]Nihon Keizai Shimbun, October 21, 1986.

Conclusion

Despite the close relations that Japan enjoys with ASEAN countries, inherent tensions exist. Japan must formulate policies with global considerations in mind, while the major issues facing ASEAN members are regional. This has prompted complaints on occasion that Tokyo is neglecting their requests while courting the goodwill of its industrialized partners. Moreover, although ASEAN members hope for Japan's cooperation in furthering their development goals, they are adamantly opposed to Japanese economic or political domination. Tokyo is well aware that a recurrence of the 1974 anti-Japan demonstrations is possible if its economic presence begins to incur resentment among members.

Nonetheless, the relationship is secure. Both sides recognize the value of maintaining harmonious ties, as well as the vital role each plays for the other's political and economic security. In this respect, they have already established Mr. Abe's idea of a "creative partnership." By contrast, the quest for "heart-to-heart relations" has not ended.

For further information, contact Eileen Marie Doherty.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.